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SUBJECT: LITHUANIA'S ENERGY CHALLENGE

Classified By: Ambassador Cloud for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY. Geography, the Soviet legacy and governmental indecision has left Lithuania with no good options to respond to the shutdown of the Ignalina Nuclear Power Plant (INPP) at the end of next year, as mandated by its EU accession agreement. Short term energy dependence on Russia will increase to almost 100 percent, which will be politically and technically difficult. Lithuania has been slow to make the investment decisions and technical fixes that could help during the period until a new nuclear power plant can be built. Lithuania is pressing the EU to allow it to keep Ignalina open past 2009, but most GOL officials recognize the effort will fail. It is unclear if the GOL has a fall back strategy to gain further EU help between the shutdown of the old INPP and the construction a new plant. This telegram examines the challenges Lithuania faces and the various ways it can deal with INPP's closing, including by upgrading its electricity production, building power bridges to Sweden and Poland, relying on natural gas and LNG, and the possible role for U.S. firms in a new INPP. End Summary.

WILL THE OLD INPP STAY OPEN PAST 2009?

¶2. (C) According to most interlocutors, Lithuania's hope of keeping INPP open past 2009 has almost no chance of succeeding. The current Danish Ambassador to Lithuania, who was involved with EU accession negotiations for Lithuania, says that Lithuania would be in violation of its accession agreement if it unilaterally decided to keep the INPP open past 2009. The DG of the Ministry of Justice's European Law Department admitted that, although the INPP case outcome is not entirely clear, he does not expect the operation of the plant to be extended. The only avenue available for Lithuania to keep the plant open without violating its EU accession terms and jeopardizing INPP decommissioning funds is for all EU members, unanimously, to vote to allow Lithuania to keep it open. Lithuanian officials acknowledge to us that this will not happen.

¶3. (C) In spite of the near impossibility of success within the EU, MPs in Lithuania are proceeding with efforts to hold a referendum during this October's Parliamentary elections on whether or not to keep Ignalina open. The PM's advisor for energy issues, Saulius Specius, when asked why Lithuania is pursuing a referendum when the EU has final say over whether the INPP can operate past 2009, responded that it is a viable political issue for all parties in Lithuania and it may help Lithuania in its negotiations with the EU. He added that when Lithuania acceded to the EU in 2004 energy relations with Russia were on a much different footing.

¶4. (C) GOL interlocutors and representatives of Lietuvos Energija have told us that they must order fuel no later than the end of summer 2008 in order to keep Ignalina operating

after 2009. The Chairman of the Commission on Energy Supply Security, Aleksandras Abisala, told us fuel from the already closed first reactor at Ignalina could be transferred to the second unit, thus reducing the amount of fuel needed for the plant to operate past 2009. Abisala argues that the only thing that will happen at the end of 2009 is that the turbine will be shut down. The nuclear reactor would continue to operate during the decommissioning phase. Thus, he argues Ignalina could continue to produce electricity during this period with no additional risk.

15. (C) Lithuania recently formed a "national investor," Leo Lt, to build a new INPP. Leo Lt's formation was cited by the Power System Director of Lietuvos Energija, Vladas Paskevicius, as supporting the argument to keep Ignalina open past 2009. Lithuania has shown progress in its plans for building a new INPP, with the formation of a national investor, he argued, so why not allow Lithuania to keep the existing plant open longer to prevent undue reliance on Russian natural gas until a new INPP is built?

BUILDING A NEW INPP

16. (C) The decision to build a new nuclear power plant awaits the completion of an environmental study, which will determine the size of the plant. Lietuvos Energija and the Lithuanian Energy Institute expect that this portion of the environmental study will be finished by August 2008. Estimates of the cost of building a new INPP run between 3.2 and 5.1 billion Euros. The plant, (as is sometimes publicly acknowledged), is unlikely to be completed by its target date of 2015. Financing, plant size, management structure, and ownership percentages still need to be agreed upon among the expected owners: Estonia, Latvia, Lithuania and Poland. In addition, no order for a reactor pressure vessel has been made, a key bottleneck in NPP production. The Lithuanians are also concerned that Russia is seriously considering building NPPs in Kaliningrad and Belarus. If that were to happen, financing for the new INPP might be difficult as viable electric supply competitors for the INPP would exist.

THE INTERIM BETWEEN NUCLEAR POWER PLANTS: GAS TURBINE GENERATION

17. (SBU) Seventy percent of Lithuania's current electrical needs are met by the one operating reactor at INPP. In total, Lithuania presently has installed generating capacity of 4900 MW with demand of approximately 2000 MW. Even after Ignalina is shut down, Lithuania is forecast to maintain a comfortable surplus in installed generating capacity. Lithuania's challenge is not generating capacity post-Ignalina, but the prospective cost and reliability of fuel supplies for generators, according to Jurgis Vilemas of the Lithuanian Energy Institute. In addition, as Lithuania increases its use of fossil fuels to generate electricity, it will increase its green house gas (GHG) emissions. Hence, Lithuania may encounter difficulty meeting its EU quotas, which are based on Lithuania's 2005 GHG emissions, i.e., pre-shutdown of Ignalina.

18. (C) Between the shutdown of the old INPP and the construction of a new one, Lithuania plans to rely on the Elektrenai natural-gas fired turbine plant located halfway between Vilnius and Kaunas. The Soviet-built plant dates from the 1960s. A natural gas burning 400 MW turbine is planned, but installation will not be completed before 2012. According to Abisala, Lithuania will thus face its greatest energy challenge from the close of INPP on December 31, 2009 through 2012. The plant will have to depend on pipelined gas from Russia to fuel the turbine. Abisala also questions whether the pipeline system in Lithuania is adequate for the needs. Stored gas might be an option but, according to Abisala, underground gas storage was considered for the Klaipeda area but a technical evaluation determined this area was not suitable.

¶9. (C) Lithuania may seek electricity from Russia and Ukraine in the interim after the old INPP shutdown. Abisala said that Lithuania's desire to import up to 600 MW of electricity might be frustrated by Russia's change from a net exporter to an importer in its northwest region this year. Lithuania could seek electrical power from Ukraine, but is concerned about the reliability of transit of this power through Belarus.

SWEDISH POWER BRIDGE

¶10. (SBU) Lithuania is also seeking access to Swedish electrical power via an energy bridge. The feasibility study for the project is complete, and Lietuvos Energija and Krasneft representatives continue to discuss the project. (An undersea cable that would provide approximately 1,000 MW and cost an estimated 500 million Euros.) During a recent meeting in Riga, Krasneft officials indicated only one cable to the Baltics will be possible from Sweden. However, there has still been no decision as to which Baltic state the connection will go. Permits still need to be finished on the Swedish side as well as the definition of financing terms for both parties.

POLISH POWER BRIDGE

¶11. (SBU) On February 12, 2008, Lietuvos Energija and PSE Operator signed an agreement to establish a company for the development of a Lithuanian-Polish power bridge, a 1,000 MW connection between the two countries at an estimated cost of 600 million Euros. The bridge will connect Alytus, Lithuania to Elk, Poland -- a 154 kilometer stretch. The formation of the firm covers only the construction of a single cable and a transfer station near Alytus. The Power System Director of Lietuvos Energija does not believe the Polish Power Bridge will be commercially viable, so EU assistance will be sought (the power link is eligible for up to 75 percent financing by EU assistance grants).

¶12. (C) Abisala expects construction of this bridge by 2012, but emphasized a point we have heard in meetings with Lietuvos Energija as well as the GOL: the power grids in Northeastern Poland and Lithuania need to be reinforced to handle increased transmission from the West. Abisala said the GOL might appeal to the EC for funds to address this upgrade. Once a new INPP is constructed the reinforced power grids could be used for electricity exports to Poland and elsewhere. The ultimate goal of the GOL (and the other Baltic nations) is to strengthen the connection with Poland to allow synchronization of the Baltic electricity system, currently connected to the Eastern European and Russian IPS/UPS system, with the Western European UCTE grid. On June 11, 2007 the PMs of the Baltic States signed a communique calling for Transmission System Operators (TSOs) from Estonia, Latvia and Lithuania to undertake a full feasibility study for this purpose.

NATURAL GAS AND LNG

¶13. (C) Lithuanians, including GOL representatives as well as energy industry officials, are concerned about Lithuania's 100 percent dependence on Russian natural gas. The GOL has considered appealing to Latvia to use gas from its large underground storage system, but the PM's energy advisor doubts the efficacy of this option, since Estonia was unable to use gas stored in Latvia. USTDA consultants were in Lithuania from April 7 - 11 to determine if a feasibility study for the construction of an LNG terminal at the Lithuanian port of Klaipeda should be conducted. The Lithuanian Minister of the Economy, whose portfolio covers energy issues, visited the U.S. in early March 2008 and met with these consultants to discuss the project.

¶14. (C) A natural gas pipeline to Poland may be one option

for Lithuania to wean itself from dependence on Russian gas. However, a feasibility study is not planned until 2009 and according to Abisala, construction would take 4 years. Lithuania has enough theoretical capacity in its natural gas pipelines to supply its future needs, even with increased demand from the Russian enclave of Kaliningrad, which is supplied from the same pipeline as Lithuania. Present demand from Lithuania and Kaliningrad totals approximately 4.3 billion cubic meters according to Abisala. Abisala estimated that Lithuania and Kaliningrad will need 7.4 billion cubic meters in 2010. Present capacity of the Lithuanian pipeline from Belarus is 6 billion cubic meters with an additional 1.6 billion cubic meters available via a connection with Latvia. Others dispute whether this capacity is real: Lithuanian experts estimate that approximately 450 million USD would be necessary to upgrade Lithuania's pipeline system to handle the nation's increased future demands. Abisala echoed this in his concern that the present pipelines would be inadequate for increased demand.

U.S. COMMERCIAL INTERESTS

15. (C) Embassy has been in touch with both GE and Westinghouse as potential bidders on a new INPP. They have both completed advocacy forms and we await Washington's decision on advocacy. We understand GE is a subcontractor for SNC Lavalin, a Canadian firm, that has bid the natural gas turbine for the Elektrenai upgrade.

COMMENT

16. (C) The GOL has recognized for a decade that it will face serious energy challenges with the closing of INPP. However, that understanding has not yet generated a sense of urgency for near- and long-term investments. Lithuania needs to work with its neighbors, the EBRD, and the EU to help develop its path to energy security.

CLOUD